

SOUTH OGDEN CONSERVATION DISTRICT

Financial Statements and Supplementary Data
December 31, 2006

(With Auditors' Report Thereon)

SOUTH OGDEN CONSERVATION DISTRICT

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Independent Auditors' Report

To the Board of Directors
South Ogden Conservation District
Ogden, Utah

We have audited the accompanying statement of net assets of South Ogden Conservation District as of December 31, 2006, and the related statement of revenue, expenses and changes in net assets and statement of cash flows for the year then ended. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America, and *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of South Ogden Conservation District at December 31, 2006, and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated June 26, 2007 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Crane Christensen & Ambrose

June 26, 2007

MANAGEMENT DISCUSSION AND ANALYSIS

The following is a discussion and analysis of the South Ogden Conservation District's financial performance providing an overview of the District's financial activities for the year ended December 31, 2006. Please read this discussion and analysis in conjunction with the District's financial statements which follow this section.

Overview of the Financial Statements

South Ogden Conservation District's financial statements consist of the following:

The Statement of Net Assets provides information regarding all assets of the District, such as cash, accounts receivable, prepaid items, inventory, investment in a water association, water rights, property and equipment, as well as the liabilities of the District, such as accounts payable and long-term debt. The difference between the assets and liabilities is reported as net assets.

The Statement of Revenue, Expenses and Changes in Net Assets shows all revenue received during the year broken down by user fees, connection fees, interest income and other miscellaneous revenue. The expenses are summarized by general administrative overhead, engineering, office salaries and expenses, assessments for water, interest and depreciation. This statement also shows the net assets at the beginning of the year and at the end of the year.

The Statement of Cash Flows summarizes the flow of cash from operating activities, investment activities as well as capital and related financing activities and provides a reconciliation of operating income to the net cash provided by the operating activities.

Notes to Financial Statements provide detail information regarding organization and summary of significant accounting policies, cash, accounts receivable, permanent water rights purchased from Weber Basin Water Conservancy District, investment in Ogden River Water Users Association, long term liabilities, retirement plans, changes in capital assets, risk management and adjustments to net assets.

Other Information includes an independent auditors' legal compliance report, schedule of findings and questioned costs, and the report on compliance and on internal control over financial reporting based on an audit of financial statements performed in accordance with government auditing standards.

Condensed Financial Information

Statement of Net Assets

Total net assets were \$3,630,933 at the end of fiscal year 2006. Capital assets at the end of 2006 were \$763,178 net of depreciation. Total liabilities are \$250,609.

Condensed Statement of Net Assets

<u>Assets</u>	<u>FY 2006</u>
Current assets	\$1,039,148
Investment in Ogden River Water Users	1,457,007
Permanent water rights in Weber Basin Water	622,209
Capital assets (net of accumulated depreciation)	<u>763,178</u>
Total assets	\$3,881,542
<u>Liabilities</u>	
Current liabilities	75,712
Long-term liabilities	<u>174,897</u>
Total liabilities	\$ 250,609
<u>Net assets</u>	
Investment in capital assets – net of related debt	\$ 763,178
Unrestricted	<u>2,867,755</u>
Total net assets	<u>\$3,630,933</u>

Statement of Revenues

Total revenue increased by \$71,777 or 5.4% from 2005.

Condensed Statement of Revenues

Revenue	<u>FY 2006</u>	<u>FY 2005</u>	<u>Net Change 2006-2005</u>
User fees	\$1,350,198	\$1,307,164	\$ 43,034
Service connection fees	2,600	1,800	800
Interest Income	32,117	16,729	15,388
Miscellaneous	<u>24,421</u>	<u>11,866</u>	<u>12,555</u>
Total	<u>\$1,409,336</u>	<u>\$1,337,559</u>	<u>\$ 71,777</u>

Statement of Expenses

Total expenses for 2006 were \$1,314,828.

Condensed Statement of Expenses

Expenses

General administrative overhead	\$ 225,199
Engineering expenses	130,148
Office salaries and expenses	62,167
Operations and maintenance	532,602
Assessment – Ogden River Water Users' Association	178,133
Weber Basin Water Conservancy District	41,483
Interest Expense	21,613
Depreciation	<u>123,483</u>
Total Expenses	<u>\$1,314,828</u>

Statement of Changes in Net Assets

Below is a condensed statement of changes in net assets for the District for 2006.

Condensed Statement of changes in net assets

Revenues	\$1,409,336
Expenses	<u>1,314,828</u>
Change in net assets	\$ 94,508
Net assets – beginning of year	3,458,658
Adjustments to net assets	<u>77,767</u>
Net assets – end of year	<u>\$3,630,933</u>

SOUTH OGDEN CONSERVATION DISTRICT

Statement of Net Assets

December 31, 2006

Assets

Current assets:

Cash (note 2)	\$ 614,087	
Accounts receivable (note 3)	320,864	
Prepaid items (note 4)	41,483	
Inventory, at cost (note 1)	<u>62,714</u>	
Total current assets		\$ 1,039,148

Investments in Ogden River Water Users Association (note 5)	1,457,007
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Permanent water rights subscribed to in Weber Basin Water Conservation District (note 4)	622,209
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Capital assets less accumulated depreciation of \$3,312,509 (notes 1 and 8)	<u>763,178</u>
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Total assets	<u>3,881,542</u>
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Liabilities

Current liabilities:

Long-term liabilities - current portion (note 6)	10,371	
Accounts payable	<u>65,341</u>	
Total current liabilities		75,712

Long-term liabilities less current portion (note 6)	<u>174,897</u>
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Total liabilities	<u>250,609</u>
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Net Assets

Investment in capital assets	763,178
Unrestricted	<u>2,867,755</u>
Total net assets	<u>\$ 3,630,933</u>

See independent auditors' report and notes to financial statements.

SOUTH OGDEN CONSERVATION DISTRICT

Statement of Revenue, Expenses and Changes in Net Assets

Year Ended December 31, 2006

Income from operations:		
User fees	\$ 1,350,198	
Service connection fees	2,600	
Miscellaneous	<u>24,421</u>	
Total income from operations		\$ 1,377,219
Expenses:		
General administrative overhead	225,199	
Engineering	130,148	
Office salaries and expenses	62,167	
Operation and maintenance	532,602	
Assessment - Ogden River Water Users Association	178,133	
Weber Basin Water Conservation District - operation and maintenance	41,483	
Depreciation	<u>123,483</u>	
Total expenses		<u>1,293,215</u>
Net income from operations		84,004
Non-operating income and expenses:		
Interest income	32,117	
Interest expense	<u>(21,613)</u>	
Net non-operating income and expenses		<u>10,504</u>
Change in net assets		94,508
Net assets - beginning of year		3,458,658
Adjustments to net assets (note 10)		<u>77,767</u>
Net assets - end of year		<u>\$ 3,630,933</u>

See independent auditors' report and notes to financial statements.

SOUTH OGDEN CONSERVATION DISTRICT

Statement of Cash Flows

Year Ended December 31, 2006

Cash flows from operating activities:		
Receipts from customers	\$ 1,609,428	
Payments to suppliers	(794,466)	
Payments to employees	<u>(438,280)</u>	
Net cash provided by operating activities		\$ 376,682
Cash flows from investing activities:		
Interest received	<u>32,117</u>	
Net cash provided by investing activities		32,117
Cash flows from capital and related financing activities:		
Interest paid	(21,613)	
Purchase of capital assets	(55,952)	
Principal paid on long-term debt	<u>(23,746)</u>	
Net cash used by capital and related financial activities		<u>(101,311)</u>
Net increase in cash		307,488
Cash - beginning of year		<u>306,599</u>
Cash - end of year		<u>\$ 614,087</u>
Reconciliation of operating income to net cash provided by operating activities:		
Income from operations		\$ 84,004
Adjustments to reconcile net operating income to net cash provided by operating activities:		
Depreciation	123,483	
Decrease in accounts receivable	214,138	
Undepreciated cost of capital assets sold	18,069	
Increase in inventory	(8,196)	
Decrease in accounts payable	<u>(54,816)</u>	
Net cash provided by operating activities		<u>\$ 376,682</u>

See independent auditors' report and notes to financial statements.

SOUTH OGDEN CONSERVATION DISTRICT

Notes to Financial Statements

December 31, 2006

(1) Organization and Summary of Significant Accounting Policies

A. Organization

The District is a municipal corporation organized to store and distribute irrigation water. The District is operated jointly with Ogden River Water Users Association and Weber-Box Elder Conservation District, the joint operation of which is known as the Pine View Water System. The land, buildings and equipment are also jointly owned by the association and the two conservation districts, with related costs allocated between the three organizations. All expenses which cannot be specifically designated as belonging to one organization are generally allocated on each organization's use.

B. GASB Statement No. 40 - *Deposit and Investment Risk Disclosures*

South Ogden Conservation District has implemented GASB Statement 40, *Deposit and Investment Risk Disclosures - an amendment of GASB Statement No. 3*. As a result, the disclosure in note 2 related to the District's deposit and investment risks have been changed.

C. Accounting Method

The District uses the accrual method of accounting to record its transactions. All applicable Financial Accounting Standards Board pronouncements issued prior to December 1, 1989 are being applied except for those that conflict with or contradict Governmental Accounting Standards Board pronouncements.

D. Reporting Entity

In evaluating how to define the government for financial purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in accounting principles generally accepted in the United States of America (GAAP). The basic - but not the only - criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of this ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations and accountability of fiscal matters. A second criterion used in evaluating potential component units is the scope of public services. Application for this criterion involves considering whether the activity benefits the government, and/or its citizens, or whether the activity is conducted within the geographic boundaries of the government and is generally available to its citizens. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the government is able to exercise oversight responsibilities. Based upon the application of these criteria, the District has no component units.

E. Fund Accounting

The accounts of the District are organized as one proprietary fund type specifically as an enterprise fund. Proprietary funds account for the flow of economic resources and use the accrual basis for accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time the liabilities are incurred. Enterprise funds account for operations that are financed and operated in a manner similar to private business or where the intent of the governing body is that costs of providing services to the general public on a continuing basis be financed or recovered primarily through user charges.

F. Capital Assets

The water distribution system, which has been constructed by the United States Government, has been included as an asset of the District although title to the system remains with the U.S. Government.

Depreciation is recorded on property and equipment using the straight-line method over their estimated useful lives.

SOUTH OGDEN CONSERVATION DISTRICT

Notes to Financial Statements - Continued

December 31, 2006

(1) Organization and Summary of Significant Accounting Policies - Continued

G. Inventory

Inventory consists of supplies and materials and is recorded at the lower of cost or market using the first-in first-out method.

H. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

(2) Deposits and Investments

Deposits and investments for the District are governed by the Utah Money Management Act (*Utah Code Annotated*, Title 51, Chapter 7, "the Act") and by rules of the Utah Money Management Council ("the Council"). Following are discussions of the District's exposure to various risks related to its cash management activities.

A. Custodial Credit Risk

Deposits. Custodial credit risk for deposits is the risk that in the event of a bank failure, the District's deposits may not be recovered. The District's policy for managing custodial credit risk is to adhere to the Money Management Act. The Act requires all deposits of District funds to be in a *qualified depository*, defined as any financial institution whose deposits are insured by an agency of the federal government and which has been certified by the commissioner of Financial Institutions as meeting the requirement of the Act and adhering to the rules of the Utah Money Management Council.

The District's deposits in the bank in excess of the insured amount are uninsured and are not collateralized, nor do state statutes require them to be. The District's deposits at December 31, 2006 were \$180,933 of which \$80,933 were not insured nor collateralized.

Investments. Custodial credit risk for investments is the risk that in the event of the failure of the counterparty, the District will not be able to recover the value of its investments that are in the possession of an outside party. The District does not have a formal policy for custodial credit risk of investments.

B. Credit Risk

Credit risk is the risk that the counterparty to an investment transaction will not fulfill its obligations. The District's policy for limiting the credit risk of investments is to comply with the Money Management Act. The Act requires investment transactions to be conducted only through qualified depositories, certified dealers, or directly with issuers of the investment securities. Permitted investments include deposits of qualified depositories; repurchase agreements; commercial paper that is classified as "first-tier" by two nationally recognized statistical rating organizations, one of which must be Moody's Investor Services or Standard & Poors; bankers acceptances; obligations of the U.S. Treasury and U.S. government sponsored enterprises; bonds and notes of political subdivisions of the State of Utah; fixed rate corporate obligations and variable rate securities rated "A" or higher by two nationally recognized statistical rating organizations; and shares in a money market fund as defined in the Act.

The District is also authorized to invest in the Utah Public Treasurer's Investment Fund (PTIF), an external pooled investment fund managed by the Utah State Treasurer and subject to the Act and Council requirements. The PTIF is not registered with the SEC as an investment company, and deposits in the PTIF are not insured or otherwise guaranteed by the State of Utah. The PTIF operates and reports to participants on an amortized costs basis. The income, gains, and losses, net of administration fees, of the PTIF are allocated based upon the participants' average daily balances. The fair value of the PTIF investment pool is approximately equal to the value of the pool shares. Following are the District's investments at December 31, 2006:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Maturity</u>	<u>Quality Ratings</u>
PTIF Investments	\$ <u>440,019</u>	69 days*	not rated

*Weighted-average maturity

SOUTH OGDEN CONSERVATION DISTRICT

Notes to Financial Statements - Continued

December 31, 2006

(2) Deposits and Investments - Continued

C. Interest Rate Risk

Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The District manages its exposure to declines in fair value by investing mainly in the PTIF and by adhering to the Money Management Act. The Act requires that the remaining term to maturity of investments may not exceed the period of availability of the funds to be invested. The Act further limits the remaining term to maturity of commercial paper to 270 days or less and fixed rate negotiable deposits and corporate obligations to 365 days or less. Maturities of the District's investments are noted in the previous table.

D. Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The District's policy to limit this risk is to adhere to the rules of the Money Management Council and to invest most of its available funds in the PTIF. The Council rules do not limit the amount of investments a government may make in any one issuer except for Rule 2 regarding certain endowments and funds with a long-term perspective, and Rule 17 which limits investments in a single issuer of commercial paper and corporate obligations to between 5 and 10 percent depending upon the total dollar amount held in the government's portfolio at the time of purchase.

(3) Accounts Receivable

Accounts receivable consist of user fees collected by the Weber County Treasurer during the year and remitted subsequent to December 31 of the respective years, reimbursable expenditures made by the District for Weber-Box Elder Conservation District and Ogden River Water Users Association that had not been reimbursed at the year ends and amounts due from employees. The respective amounts are:

Weber County Treasurer	\$ 114,895
Weber-Box Elder Conservation District	143,936
Ogden River Water Users Association	<u>62,033</u>
Total	<u>\$ 320,864</u>

(4) Weber Basin Water Conservancy District - Permanent Water Rights

South Ogden Conservation District entered into two contracts during 1967 and one in 1977 purchasing water rights from Weber Basin Water Conservancy District. The two 1967 contracts are for 2,000 and 300 acre feet of water and the 1977 contract is for 45 acre feet of water with repayment to be made over a period of sixty years.

The 2,000 acre feet contract had a development period during which assessments were made by Weber Basin Water Conservancy District and were paid by the South Ogden Conservation District. The contract stipulates that charges collected during this period which are determined to be in excess of the cost of operation and maintenance, shall be credited to the construction obligation. There should be some credit available, but until this is determined, the annual assessments have been treated as operating expenses and are reflected in unappropriated surplus. The 300 and 45 acre feet contracts had no development period.

The contracts also stipulate that Weber Basin Water Conservancy District furnish to South Ogden Conservation District notice by March 1 of the year preceding the year to which the notice is applicable; such notice shall contain a statement of estimated operation and maintenance costs. This notice shall be payable on or before December 31 of the year in which notice is given. This notice has been given as required on all three contracts and has included in addition the actual principle payment due. The operation and maintenance costs paid by South Ogden Conservation District by December 31 are shown as prepaid expense.

(5) Investment in Ogden River Water Users Association

The investment in Ogden River Water Users Association is the accumulated total of annual assessments paid to Ogden River Water Users Association by the District to cover its proportionate share of the repayment contract to the U.S. Government for the construction of the original Pine View Dam and distribution system.

SOUTH OGDEN CONSERVATION DISTRICT

Notes to Financial Statements - Continued

December 31, 2006

(6) Long-Term Liabilities

Long-term liabilities consist of the following:

	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>2006</u>
Weber Basin Water Conservancy District:			
Contract for purchase of 2,000 acre feet of water	0%	12-31-2018	\$ 96,000
Contract for purchase of 300 acre feet of water	0%	12-31-2018	72,164
Contract for purchase of 45 acre feet of water	0%	12-31-2037	<u>17,104</u>
Total			185,268
Less current portion			<u>10,371</u>
Total long-term liabilities less current portion			<u>\$ 174,897</u>

Minimum payments on long-term liabilities are as follows:

2007	\$ 10,371
2008	10,371
2009	10,371
2010	10,371
2011	10,371
2012-2016	51,855
2017-2021	51,855
2022-2026	23,999
2027-2031	2,850
2032-2036	<u>2,854</u>
	<u>\$ 185,268</u>

Changes in long-term liabilities:

	<u>Balance January 1 2006</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance December 31 2006</u>
Contracts to purchase water	<u>\$ 195,639</u>	<u>-</u>	<u>10,371</u>	<u>185,268</u>

(7) Retirement Plans

Plan Description

South Ogden Conservation District contributes to the Local Governmental Non-Contributory Retirement System, a cost-sharing multiple-employer defined benefit pension plan administered by the Utah Retirement Systems (Systems). Utah Retirement Systems provide refunds, retirement benefits, annual cost of living adjustments and death benefits to plan members and beneficiaries in accordance with retirement statutes.

The System is established and governed by the respective sections of Chapter 49 of the Utah Code Annotated 1953 as amended. The Utah State Retirement Office Act in Chapter 49 provides for the administration of the Utah Retirement Systems and Plans under the direction of the Utah State Retirement Board (Board) whose members are appointed by the Governor. The Systems issue a publicly available financial report that includes financial statements and required supplementary information for the Local Governmental Non-Contributory Retirement System. A copy of the report may be obtained by writing to the Utah Retirement Systems, 540 East 200 South, Salt Lake City, Utah, 84102 or by calling 1-800-365-8772.

SOUTH OGDEN CONSERVATION DISTRICT

Notes to Financial Statements - Continued

December 31, 2006

(7) Retirement Plans - Continued

Funding Policy

In the Local Governmental Non-Contributory Retirement System the District was required to contribute 11.59% of its covered salary for the year ended December 31, 2006. The contribution rate is actuarially determined. The contribution requirements of the System are authorized by statute and specified by the Board.

The District's contributions to the Non-Contributory Retirement System for December 31, 2006, 2005 and 2004 were \$136,370, \$128,145 and \$110,703 respectively, and 401(K) contributions for December 31, 2006, 2005 and 2004 were \$30,647, \$30,113 and \$27,801 respectively. The contributions were equal to the required contributions for each year.

(8) Changes in Capital Assets

	Balance January 1 2006	Additions	Deletions	Balance December 31 2006
Buildings and land	\$ 318,226	-	-	318,226
Machinery and equipment	438,494	55,952	56,095	438,351
Washington Terrace wells	310,521	-	-	310,521
Water distribution system	3,008,589	-	-	3,008,589
Total	\$ 4,075,830	55,952	56,095	4,075,687

(9) Risk Management

South Ogden Conservation District is exposed to various risks of loss related to torts; theft of damage to and destruction of assets; errors and omissions; and natural disaster for which the District carries commercial insurance. Deductibles on claims are paid for out of the department experiencing the damage or loss.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNRs). At December 31, 2006, there were no outstanding claims or judgements against the District. Settlements did not exceed insurance coverage for each of the past three years.

(10) Adjustments to Net Assets

Net assets were increased by \$77,767 which represents an increase in the investment in Ogden River Water Users Association due to the association making payments on its debt.



Steven F. Crane, CPA
Kent R. Christensen, CPA
Jeffrey L. Ambrose, CPA
Chuck Palmer, CPA

Independent Auditors' Legal Compliance Report

To the Board of Directors
South Ogden Conservation District
Ogden, Utah

We have audited the financial statements of the South Ogden Conservation District for the year ended December 31, 2006, and have issued our report thereon dated June 26, 2007. As part of our audit, we have audited South Ogden Conservation District's compliance with those general compliance requirements identified in the Compliance Manual for Audits of Local Governments in Utah including:

Public Debt
Cash Management
Purchasing Requirements
Budgetary Compliance
Truth in Taxation and Property Tax Limitations
Other Compliance Requirements
Special Districts General Compliance

The District received no financial assistance from the State. The management of South Ogden Conservation District is responsible for the District's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed an instance of noncompliance with the requirements referred to above, which is outlined in the accompanying Schedule of Findings and Questioned Costs.

In our opinion, except for the instance of noncompliance mentioned above, the South Ogden Conservation District complied, in all material respects, with the general compliance requirements identified above for the year ended December 31, 2006.

Crane Christensen & Ambrose

June 26, 2007

SOUTH OGDEN CONSERVATION DISTRICT

Schedule of Findings and Questioned Costs

Year Ended December 31, 2006

PROGRAM: CASH MANAGEMENT

FINDING: The District had no treasurer fidelity bond in force at December 31, 2006.

QUESTIONED COSTS: None

RECOMMENDATION: We suggest the District obtain a fidelity bond greater than the amount specified by Utah Code.

DISTRICT'S REPLY: The District is in the process of obtaining fidelity bond coverage of the required amount.

Report on Internal Control over Financial Reporting and on Compliance
and Other Matters Based on an Audit of Financial Statements Performed
in Accordance with Government Auditing Standards

To the Board of Directors
South Ogden Conservation District
Ogden, Utah

We have audited the financial statements of South Ogden Conservation District (District) as of and for the year ended December 31, 2006, and have issued our report thereon dated June 26, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government auditing Standards*.

This report is intended solely for the information and use of management, the Board of Directors, and State agencies and is not intended to be and should not be used by anyone other than these specified parties.

Crane Christensen & Ambrose

June 26, 2007

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Member Division of CPA Firms, American Institute of Certified Public Accountants